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Before the  
FEDERAL COMMUNICATIONS COMMISSION  
Washington, D.C. 20554

JUL 23 1999

FEDERAL COMMUNICATIONS COMMISSION  
OFFICE OF THE SECRETARY

In the Matter of	)	
	)	
Federal-State Joint Board on	)	CC Docket No. 96-45
Universal Service	)	
	)	
Access Charge Reform	)	CC Docket No. 96-262

COMMENTS OF AMERITECH

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Dated: July 23, 1999

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Ameritech submits these comments in response to the Commission's further notice of proposed rulemaking in the above-captioned matter.<sup>1</sup>

**I. INTRODUCTION AND SUMMARY**

In the FNPRM, the Commission's seeks comments on various aspects of a mechanism for providing high cost support for non-rural local exchange carriers ("LECs"). The Commission proposes this new arrangement even though there is no evidence whatsoever that the current system of support is deficient. Both the Commission and the Joint Board agree that rates today are "affordable." Nor is there even a suggestion that rates between urban and rural areas are not "reasonably comparable." Yet, in spite of this utter lack of any demonstration of need, the Commission has proposed a gigantic mechanism of enormous complexity to effect a distribution of support which both the Commission and the Joint Board believe should be very

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<sup>1</sup> In the Matter of Federal-State Joint Board on Universal Service, Access Charge Reform, CC. Docket Nos. 96-45, 96-262, Seventh Report and Order and Thirteenth Order on Reconsideration and CC Docket No. 96-45, Fourth Report and Order in CC Docket No. 96-262, and Further Notice of Proposed Rulemaking, FCC 99-119 (released May 28, 1999). Although it is both an order and a further notice, for convenience Ameritech will refer to the item in all its aspects as "FNPRM".

similar to the distribution of support that exists today. Because of legitimate concerns that dramatic increases in the size of the fund would ultimately burden consumers, the Commission has sought comment on how to limit the size of the fund. The answer to that question is simple – leave the current mechanism for high cost support for non-rural telephone companies in place. Despite the Commission’s concern, there is no reason to believe that states could not adequately modify intrastate support mechanisms to deal with the pressure that increased competition would place on current implicit subsidies.

With respect to the proposed mechanism itself, it is apparent that the elements (benchmark level, area over which LEC costs are averaged, assumed state support amount) should all reasonably be set with an eye to keeping the end result – the size of the fund – roughly within current bounds. To that extent, however, each of those settings will be arbitrary and vulnerable to challenge. In the end, therefore, the Commission should simply rely on the current support mechanism and entertain requests from any states for additional funding if they find themselves unable to continue to provide adequate intrastate support.

## **II. THE CURRENT FEDERAL HIGH COST SUPPORT MECHANISM FOR LARGE CARRIERS IS WORKING.**

In the FNPRM, the Commission describes the current high cost mechanism for large carriers. That support (in addition to the 25% allocation of all loop costs to the interstate jurisdiction) is based on the amount by which a carrier’s loop costs exceed the national average. This support is on a sliding scale starting at 10% where costs are between 115% and 160% of the national average, going all the way up to 75% in those cases in which costs are

greater than 250% of the national average.<sup>2</sup>

This system has been in place in substance since 1984 and there is no evidence to indicate that the goals of §254 of the 1996 are not being satisfied. In fact, as the Commission indicates, all the evidence is to the contrary. As the Commission notes, both the Joint Board and the Commission itself have previously concluded that current rate levels are affordable.<sup>3</sup> The Commission found that the current federal Lifeline and Link-Up programs adequately address affordability issues unique to low-income consumers from a federal perspective<sup>4</sup> and that the states have primary responsibility for determining affordability because of their familiarity with factors, such as the size of local calling areas, consumer income levels, and rate design, that bear on the issue of affordability.<sup>5</sup>

Given this, the Commission discusses the purpose of federal high cost support as enabling “rates in rural areas to remain reasonably comparable to rates in urban areas.”<sup>6</sup> The Commission rightfully states that there is no requirement that rate levels in all states or in all areas of a state be identical:

In particular, as the local exchange market becomes more competitive, it would be unreasonable to expect rate levels not to vary to reflect the varying costs of serving different areas.<sup>7</sup>

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<sup>2</sup> *Id.* at ¶98.

<sup>3</sup> *Id.* at ¶30.

<sup>4</sup> *Id.* at ¶39.

<sup>5</sup> *Id.* at ¶36.

<sup>6</sup> *Id.* at ¶30.

<sup>7</sup> *Id.*

Further, the Commission notes:

States are largely already making use of this ability [to achieve reasonably comparable rates on a state-wide basis] by providing carriers with substantial universal service support, often through rate averaging and other rate design methodologies.<sup>8</sup>

Moreover, there is no evidence that there is currently a significant rate parity problem that requires federal support. In fact, there is evidence that rates in some “high cost” areas are less than those in low cost areas. The Commission’s own data shows numerous examples of lower rates in cities in high cost states than rates in cities in low cost states. For example, the monthly service rate is \$19.69 in high cost Butte, Montana, compared to \$24.67 in low cost Baltimore, Maryland, and \$18.16 in high cost Seattle, Washington, compared to \$22.98 in low cost Terre Haute, Indiana.<sup>9</sup> Thus, there appears to be no immediate need to modify the federal support mechanism to correct any current inequitable rate situation.

### **III. THERE IS NO EVIDENCE THAT THE CURRENT FEDERAL HIGH COST SUPPORT MECHANISM WOULD NOT BE ADEQUATE IN THE FUTURE.**

In the FNPRM, the Commission has positioned its proposed high cost support mechanism as primarily a safeguard against the future inability of a state to deal with intrastate high costs in a way that ensures comparable rates:

Therefore, we interpret the goal of maintaining a “fair range” of [of urban/rural] rates to mean that support levels must be sufficient to prevent pressure from high costs and the development of competition from causing unreasonable increases in rates above current affordable levels. When we use the term “reasonably comparable” throughout this Order and FNPRM, we are referring to this definition of the term.<sup>10</sup>

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<sup>8</sup> *Id.* at ¶13.

<sup>9</sup> See the Commission’s Reference Book of Rates, Price Indices and Expenditures for Telephone Service, June, 1999.

<sup>10</sup> FNPRM at ¶30.

However, the Commission's proposal is not to provide federal support for all intrastate costs above a nationwide benchmark, but only those in excess of a state's ability to reasonably support comparable rates.<sup>11</sup> The Commission elaborated:

As the Joint Board acknowledged, however, the development of competition and local markets is likely to erode states' ability to support universal service through implicit mechanisms. We agree with the Joint Board that the erosion of intrastate implicit support does not mean federal support must be provided to replace implicit intrastate support that is eroded by competition. Indeed, it would be unfair to expect the federal support mechanism, which by its very nature operates by transferring funds among jurisdictions, to bear the support burden that has historically been borne within a state by intrastate, implicit support mechanisms. The Joint Board stated that states "possess the jurisdiction and responsibility to address these implicit support issues through appropriate rate design and other mechanisms within a state," and it concluded that the states "should bear the responsibility for design of intrastate funding mechanisms." ...[The proposal] assumes that states will take some action, whether through rate design or through an explicit support mechanism, to support universal service within the state, and provides for federal support where such state efforts would be insufficient to achieve reasonable comparability of rates.<sup>12</sup> (Emphasis added. Citations omitted.)

In short, states are currently providing for "comparable" rates through implicit (or, perhaps, in some cases explicit) mechanisms. Further, as competition compromises the viability of any of these implicit subsidy mechanisms, states are expected to continue to provide similar levels of support through other means.

The problem with the proposed high cost support methodology is that it will assume that states will not be able to adequately provide this support for intrastate costs over a certain amount – even though they are doing so today. This assumption is seriously flawed.

There is absolutely no evidence that today's federal support levels would be inadequate

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<sup>11</sup> *Id.* at ¶31.

<sup>12</sup> *Id.* at ¶46.

in any circumstance. While competitive entry could certainly affect an individual carrier's ability to sustain internal subsidies to high cost rural areas via rate averaging, it should have no effect on a state's ability to craft an adequate remedy. For example, if the carrier's rates currently provide an effective subsidy from low cost urban areas to high cost rural areas of \$5 per urban line per month, competitive entry in the low cost areas would render it difficult for that carrier to continue the subsidy. On the other hand, the state could quite easily set up an explicit subsidy mechanism whereby all carriers serving low cost urban customers would pay \$5 per line per month into a fund that supported rates in high cost rural areas. The total amount of support provided by that state's telephone subscribers in urban areas to its subscribers in rural areas would remain the same – only the state mechanism for effecting that subsidy transfer would be different. Since the state is providing that subsidy today, it should continue to provide that subsidy in the future. Whether it chooses to do so through an explicit mechanism, or through some other means, would be its choice. However – and it bears repeating –

[i]t would be unfair to expect the federal support mechanism, which by its very nature operates by transferring funds among jurisdictions, to bear the support burden that has historically been borne within a state by intrastate, implicit support mechanisms.<sup>13</sup>

And there is no evidence whatsoever that that cannot be accomplished with the funding provided by the current federal high cost support mechanism.

Rather than assuming that there might be circumstances under which a state might be incapable of internally funding comparable rates, the Commission should simply continue the

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<sup>13</sup> *Id.* at ¶46.



current federal interstate high cost support mechanism and permit states that might possibly find themselves in difficult situations in the future to request additional federal support.

It must be remembered that this docket is dealing with the high cost support mechanism for non-rural carriers. While these carriers may have high costs, they are not the small, rural carriers that receive additional federal support through mechanisms such as DEM weighting and Long Term Support. Thus there is no reason to believe that states will not be able to work with these carriers to reasonably address issues of rate comparability. In addition, it is important to note that of the \$220M of support provided by the current large carrier high cost fund, 62% or \$136M goes to local exchange carriers in Puerto Rico.<sup>14</sup> Continuing the existing federal support mechanism will still provide this substantial funding in Puerto Rico where the need may be most critical.

#### **IV. THE PROPOSED HIGH COST SUPPORT METHODOLOGY FOR NON-RURAL CARRIERS IS FLAWED.**

The proposed cost support methodology involves ascertaining the amount by which a carrier's cost exceeds a national average cost benchmark (a certain percentage above the national average cost) and then the amount by which that exceeds the level of support the state is deemed to be capable of providing. In addition, however, the Commission has adopted the Joint Board's "hold harmless" recommendation whereby no carrier would get less support under the new method than it is getting under the current method. Because the major elements of the plan will be arbitrarily established, and, therefore, seriously vulnerable to legal challenge, the Commission should be hesitant to abandon the current high cost support methodology

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<sup>14</sup> See Attachment A

As the Joint Board concluded, with the Commission's concurrence, because rates are currently affordable, the total amount of federal support under the new method should not significantly exceed the current total support amount.<sup>15</sup> Moreover, the Commission is reasonably concerned that significant increases in federal support would ultimately adversely affect consumer rates.<sup>16</sup> Therefore, all aspects of the methodology will be geared towards achieving a fund that is not substantially larger than it is today. Ameritech takes no issue with this desired result – only with the fact that, of necessity, the determination of two of the critical elements of the plan – the national benchmark level and the assumed state ability to support high cost – will be arbitrary.<sup>17</sup>

With respect to the first element, the Joint Board has recommended that the Commission consider setting the national benchmark at a level between 115% and 150% of the national average cost per line.<sup>18</sup> However, the Joint Board did not justify its recommendation. It did not even hint at a reason why intrastate costs above such a level require federal support in order to ensure rate comparability. Similarly, with respect to a state's ability to support its high cost areas, the Commission has concluded that that should be reflected in the plan by a uniform dollar

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<sup>15</sup> FNPRM at ¶16, 48.

<sup>16</sup> *Id.* at ¶69.

<sup>17</sup> Attachment A, "Analysis of FCC's Proposed Method for Non-Rural High Cost Funding," provides an illuminating discussion of current support levels, the ways in which the proposed method can be manipulated to achieve different fund sizes, and the effects of those manipulations on the distribution of support funds. In this regard, it is important to note that increases in the fund size – even substantial ones – would provide measurable increased funding to only a handful of states. The report also points out the arbitrariness of the application of an across-the-board hold harmless provision – as it would be applied to the majority of current fund recipients. There appears to be little rationale to continue funding, where the model dictates otherwise, to carriers who are getting only pennies per line per month.

<sup>18</sup> FNPRM at ¶59.

amount per line.<sup>19</sup> Yet, this methodology seriously risks understating both the amount of intrastate support individual states are providing today and any additional amount of intrastate support individual states could provide in the future. In fact, to the extent that this figure is set sufficiently low that any state receives more funding than it does today, its validity would be substantially contradicted by the fact that, as noted above, there is no reason to believe that any state could not appropriately continue to provide adequate support for rate comparability.

Ameritech does not doubt that the Commission will receive substantial comment on what these benchmark and state support amounts should be. However, it also expects that there will be little by way of justification for the individual figures – except that, perhaps, when taken in combination, they yield a result which is close to that desired – a fund not substantially larger than it is today. Ameritech suggests that that justification by itself, provides inadequate rationale to support the methodology in the first instance. In order to justify its decision, the Commission must be able to say why costs above X percent of the national benchmark are deserving of federal support and why \$X per line is a reasonable figure to represent the limit of each state’s ability to support its own intrastate costs. Absent that, the Commission would do better by simply retaining the current mechanism – because it is working.

In addition, the proposed mechanism also raises other legal issues that make it vulnerable to ultimately being overturned. First, the methodology uses hypothetical forward-looking costs. Certain carriers, including Ameritech, will argue that this is insufficient to fulfill the purposes of §254 because it fails to compensate any carrier for its actual costs – i.e., no carrier can conform itself to the characteristics of the hypothetically efficient carrier involved in the cost model.

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<sup>19</sup> *Id.* at ¶63.

Second, the complete elimination of jurisdictional distinctions seems to be at odds with the intent §254. That section's references to separate state and interstate funds seems to indicate Congress's intent that the federal fund should address services and costs within the interstate jurisdiction and that state funds would deal with their intrastate counterparts. Ameritech realizes that the Commission's proposed methodology would involve federal funding of intrastate costs only in those circumstances in which – as determined by the methodology – the state was incapable of supporting those costs, and then only to that extent. However, the issue nonetheless exists – which would be substantially mitigated if the Commission simply retained the current arrangement.<sup>20</sup>

What the Commission has proposed is an unnecessarily complex mechanism to achieve a predetermined result that is legitimate in its own right – to provide non-rural LECs with approximately the same total amount of federal high cost support that they are receiving today. In an effort to achieve a false sense of precision, the Commission has solicited comments on different aspects of this mechanism – how the various elements should be set – but with the same end result in mind. In the Commission's model, if the benchmark is "too low," the amount of presumed intrastate support would have to be raised to keep the fund size reasonably close to current levels. These adjustments, of course, will have nothing to do with the actual costs needed

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<sup>20</sup> Ameritech is aware that a related jurisdictional issue – the appropriate revenue base for contributions to the fund – is pending before the Fifth Circuit Court of Appeals. That decision may ultimately have an impact on the issue of the Commission's ability to expand a federal fund to jurisdictionally intrastate matters. Further, Ameritech realizes that what it has proposed in the previous section – retaining the current mechanism but permitting the states to ask for more support on an ad hoc basis – would involve federal support of intrastate costs in those latter circumstances. However, Ameritech fully expects that, for the reasons stated in the previous section, a state may never find itself in the position of having to come to the Commission for additional interstate support. Moreover, even if it did, the support would only be provided in those circumstances in which it was actually proven that a state could not provide the support on its own – a case that is more compelling than that in which it is merely assumed that the state cannot provide adequate support.

to be supported or with any state's actual ability to support high costs. To that extent, these adjustments have no validity.

What is known, however, is that states are doing a good job of supporting costs in excess of the amount of federal support they receive today. Rates are affordable and "reasonably comparable." This, coupled with the fact there is no evidence to show that states would not be able to continue to provide similar levels of support in the future (albeit perhaps by shifting from implicit to explicit means) certainly leads to the logical conclusion that continuing the current mechanism will not result in any harm to any states.

## V. CONCLUSION

In light of the foregoing – and especially in light of the complete absence of any evidence that states will be incapable of continuing to adequately support intrastate costs to ensure reasonably comparable rates – the Commission should simply continue with the current high cost support mechanism for non-rural carriers.

The Commission reasonably concluded:

[W]e are hesitant to mandate large increases in explicit federal support for local rates in the absence of clear evidence that such increases are necessary either to preserve universal service, or to protect affordable and reasonably comparable rates, consistent with the development of efficient competition.<sup>21</sup>

However, the Commission has proposed its new mechanism for providing high cost support to non-rural carriers without any evidence whatsoever that the current mechanism needs to be changed at all. In fact, the Commission's general conclusion that rates are affordable today and that states are reasonably addressing the "comparability" issue militates strongly against the need

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<sup>21</sup> FNPRM at ¶69.

for scrapping the current system. To the extent that there is some concern about states' ability to continue support for comparable rates in the face of future competition, there is no reason to believe that, at a minimum, states will not be able to adapt to those situations by, for example, the implementation of explicit funding to which all carriers would contribute on a competitively neutral basis.

Ameritech, therefore, suggests that the Commission can best limit the size the current fund to roughly its current proportions by simply leaving in place the current mechanism for high cost support for non-rural carriers. If needed, the Commission could entertain requests from individual states who might, at a later time, find themselves in a position of being incapable of continuing intrastate funding of universal service and in particular need of federal support.

Respectfully submitted,

A handwritten signature in dark ink, appearing to read "Michael S. Pabian", with a stylized flourish at the end.

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Dated: July 23, 1999  
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Analysis of FCC's Proposed Method for Non-Rural LEC High Cost Funding

**Introduction**

In its Order<sup>1</sup>, the FCC adopted a three-step methodology for determining the amount of Federal High Cost Support for Non-Rural LECs. The first step is to determine the difference between the forward-looking costs of a non-rural carrier's study area (or smaller geographic area) and the national average forward-looking cost.<sup>2</sup> Forward-looking cost would be determined using a single, nationwide cost proxy model, currently under development.<sup>3</sup>

Secondly, support would be provided for forward-looking cost that exceed a specified benchmark above the national average.<sup>4</sup> This amount would be reduced by the amount that the states would be responsible for.<sup>5</sup> Finally, the third step in the methodology is a "hold-harmless" provision. That is, notwithstanding the results of steps 1 and 2, no non-rural study area (or, alternatively, no state) would receive less in federal high cost support than they currently receive under the existing mechanisms.<sup>6</sup>

In the Order, the FCC has repeatedly stressed its belief that the amount of non-rural funding need not be increased significantly. For instance, in paragraph 16, the Order states:

"...we are hesitant to provide sharp increases in current support levels, in the absence of clear evidence that, consistent with the development of efficient competition, such increases are necessary to preserve universal service or to protect affordable and reasonably comparable rates...Accordingly, at this time we agree with the Joint Board that we should not increase the amount of explicit federal support significantly from current explicit levels."

In the FNPRM, the FCC seeks comment on a number of issues such as: the level of the benchmark, the amount of state responsibility, percentage of federal support above the benchmark, over what geographic area costs should be determined, and whether the "hold-harmless" provision should apply at the state level or at the individual LEC study area level.

**Analysis**

The following Table lists each non-rural LEC and the current amount of high cost funding they receive:

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<sup>1</sup> *In the Matter of Federal-State Joint Board on Universal Service*, CC Docket 96-45, Seventh Report and Order and Thirteenth Order on Reconsideration, FCC 99-119 (released May 28, 1999) ("Order")

<sup>2</sup> *Id.* at ¶ 11.

<sup>3</sup> *Id.* The Inputs to the cost model are the subject of a companion Further Notice in this proceeding.

<sup>4</sup> *Id.* at ¶ 61.

<sup>5</sup> *Id.* at ¶ 66.

<sup>6</sup> *Id.* at ¶ 68.

Table 1: Current Federal High Cost Funding for Non-Rural LECs

State	Study Area	Current	Monthly Amount Per Loop
AL	Contel Of The South DBA GTE South	\$4,359,444	\$3.19
AL	GTE And Contel Of Alabama	\$7,099,392	\$3.77
AL	South Central Bell-Al	-	\$0.00
AR	Southwestern Bell-Arkansas	\$3,984,924	\$0.35
AZ	Mountain Bell-Arizona	\$2,417,928	\$0.08
CA	Contel Of California - California	\$ 154,140	\$0.04
CA	GTE Of California	-	\$0.00
CA	Pacific Bell	-	\$0.00
CA	Roseville Telephone Company	\$6,196,488	\$4.65
CO	Mountain Bell-Colorado	\$2,505,660	\$0.08
CT	Southern New England Tel	-	\$0.00
DC	C And P Telephone Company Of DC	-	\$0.00
DE	Diamond State Tel Co	-	\$0.00
FL	GTE Florida	-	\$0.00
FL	Southern Bell-FL	-	\$0.00
FL	Sprint-FL	-	\$0.00
GA	Southern Bell-Ga	\$2,980,956	\$0.06
HI	GTE Hawaiian Telephone Co Inc	-	\$0.00
IA	Northwestern Bell-Ia	-	\$0.00
ID	Mountain Bell-Idaho	-	\$0.00
IL	Contel Of Illinois Inc DBA GTE - Illinois	-	\$0.00
IL	GTE Of Illinois	-	\$0.00
IL	Illinois Bell Tel Co	-	\$0.00
IN	Contel Of Indiana Inc DBA GTE - Indiana	-	\$0.00
IN	GTE Of Indiana	-	\$0.00
IN	Indiana Bell Tel Co	-	\$0.00
KS	Southwestern Bell-Kansas	-	\$0.00
KY	Cincinnati Bell-Ky	-	\$0.00
KY	GTE South Inc - Kentucky	\$ 664,404	\$0.13
KY	South Central Bell-Ky	\$ 867,252	\$0.06
LA	South Central Bell-La	-	\$0.00
MA	New England Tel-Ma	-	\$0.00
MD	C And P Tel Co Of Md	-	\$0.00
ME	New England Tel-Maine	-	\$0.00
MI	GTE North Inc-Mi	\$ 772,320	\$0.10
MI	Michigan Bell Tel Co	-	\$0.00
MN	Contel Of Minnesota Inc DBA GTE Minnesota	-	\$0.00
MN	Northwestern Bell-Minnesota	-	\$0.00
MO	Contel Missouri DBA GTE Missouri	\$2,503,020	\$0.88



Table 1 (cont.)

State	Study Area	Current	Monthly Amount Per Loop
MO	GTE North Inc - Missouri	\$6,465,756	\$4.32
MO	Southwestern Bell-Missouri	-	\$0.00
MS	South Central Bell-Mississippi	\$7,339,776	\$0.49
MT	Mountain Bell-Montana	\$1,762,620	\$0.42
NC	Carolina Tel And Tel Co	-	\$0.00
NC	Central Tel Co-Nc	-	\$0.00
NC	Contel Of North Carolina DBA GTE No Carolina	\$4,430,112	\$2.96
NC	GTE South Inc - North Carolina	\$ 40,596	\$0.02
NC	North State Tel Co-Nc	\$2,469,732	\$1.74
NC	Southern Bell-Nc	\$1,786,068	\$0.06
ND	Northwestern Bell-North Dakota	-	\$0.00
NE	Aliant	-	\$0.00
NE	Northwestern Bell-Nebraska	-	\$0.00
NH	New England Tel-Nh	-	\$0.00
NJ	New Jersey Bell	-	\$0.00
NM	Mountain Bell-New Mexico	\$4,603,776	\$0.50
NV	Central Telephone Company - Nevada	-	\$0.00
NV	Nevada Bell	-	\$0.00
NY	New York Tel	-	\$0.00
NY	Rochester Telephone Corp	-	\$0.00
OH	Cincinnati Bell-Ohio	-	\$0.00
OH	GTE North Inc-Oh	-	\$0.00
OH	Ohio Bell Tel Co	-	\$0.00
OH	United Tel Co Of Ohio	-	\$0.00
OK	GTE Southwest Inc - Oklahoma	-	\$0.00
OK	Southwestern Bell-Oklahoma	-	\$0.00
OR	GTE Of The Northwest	-	\$0.00
OR	Pacific Northwest Bell-Oregon	\$ 17,076	\$0.00
PA	Bell Of Pennsylvania	-	\$0.00
PA	GTE North Inc-Pa And Contel	-	\$0.00
RI	New England Tel-Ri	-	\$0.00
SC	GTE South Inc - South Carolina	-	\$0.00
SC	Southern Bell-Sc	\$5,578,296	\$0.33
SD	Northwestern Bell-South Dakota	-	\$0.00
TN	South Central Bell-Tn	-	\$0.00
TN	United Inter-Mountain Tel Co-Tn	-	\$0.00
TX	Central Telephone Company Of Texas	\$5,150,976	\$2.15
TX	Contel Of Texas Inc DBA GTE Texas	\$ 495,768	\$0.19
TX	GTE Southwest Inc - Texas	-	\$0.00

Table 1 (cont.)

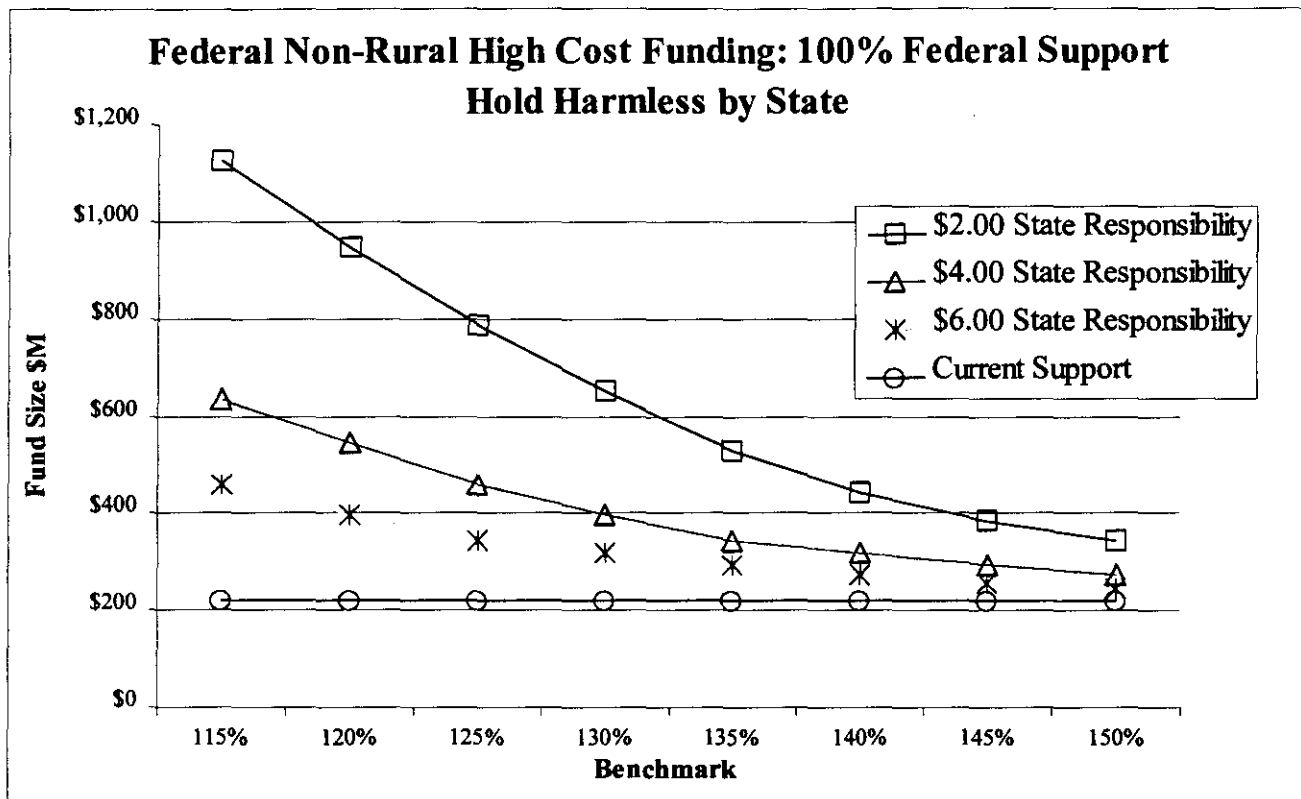
State	Study Area	Current	Monthly Amount Per Loop
TX	Southwestern Bell-Texas	-	\$0.00
UT	Mountain Bell-Utah	-	\$0.00
VA	C And P Tel Co Of Va	-	\$0.00
VA	Central Tel Co Of Va	\$1,263,000	\$0.37
VA	Contel Of Virginia Inc DBA GTE Virginia	-	\$0.00
VA	United Inter-Mountain Tel Co-Va	-	\$0.00
VT	New England Tel-Vt	\$1,454,568	\$0.36
WA	GTE Northwest Inc – Washington	-	\$0.00
WA	Pacific Northwest Bell-Washington	-	\$0.00
WI	GTE North Inc-Wi	-	\$0.00
WI	Wisconsin Bell	-	\$0.00
WV	C And P Tel Co Of W Va	\$1,673,112	\$0.17
WY	Mountain Bell-Wyoming	\$4,445,856	\$1.56
PR		\$136,415,172	\$9.05
AK		-	\$0.00
Total		\$219,898,188	\$0.11

Of the current total, 62% goes to Puerto Rico. Moreover, the remaining support is spread out over the rest of the states in such a way as to provide, in many cases, insignificant levels of support, especially on a monthly, per-loop basis. It is hard to imagine telephone penetration levels being negatively impacted in Michigan if, for example, GTE-MI were to lose its \$.10 per loop monthly federal support. Indeed, one could argue that anything less than \$1.00 or more per month is unlikely to affect the level of penetration.

Nonetheless, the FCC has adopted a hold-harmless principle under which carriers or states will continue to receive at least their current levels of support.

Given that the FCC has tentatively concluded that there is no reason to significantly increase the size of the fund, it is instructive to examine the effects of various choices for benchmark, federal support and state support on the size of the fund using the FCC's mechanism described above. At the outset, it should be noted that all of the analysis presented in this paper was done using the FCC's worksheet showing support results if the model is run at the density zone level. Also, it was assumed that the hold harmless assumption would apply at the state level although the results assuming hold harmless at the LEC study area level are similar due partially to the fact that in many states there is only one non-rural LEC study area.

The following graph illustrates the effect of varying the benchmark on fund size for various levels of state support:



As can be seen from the above graph, a fund size close to the current fund size can be obtained by choosing a high benchmark (150%) and setting the state responsibility high (\$6.00), although, there isn't a significant difference at the 150% benchmark between the fund size at a \$2.00 state support level (\$345M) and the fund size at a \$6.00 state support level (\$244M). However, there does not seem to be any rational basis for choosing a \$2.00, \$4.00, \$6.00 or some other state support level. Nor does there seem to be any rational basis for setting the benchmark at 150% as opposed to some other level except for the goal of keeping the fund size approximately where it is today.

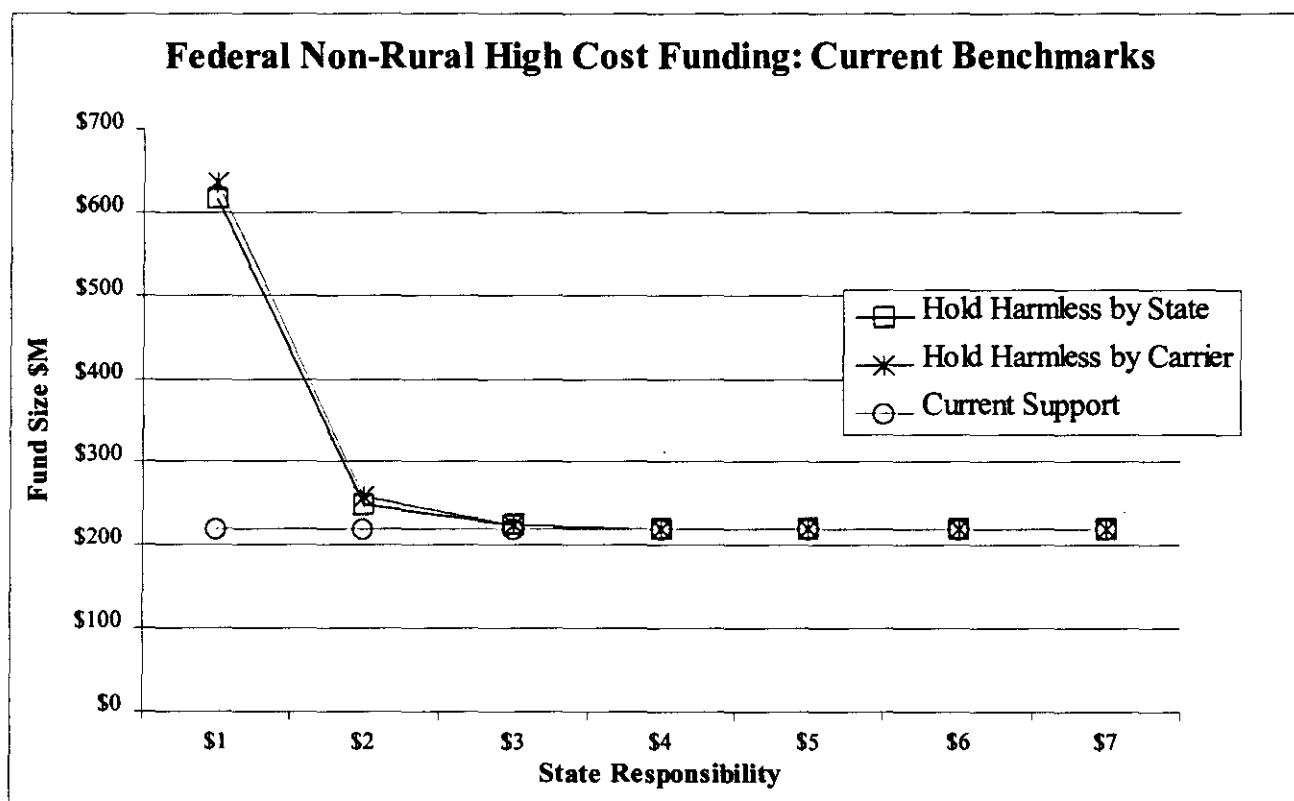
To avoid the arbitrariness of choosing a benchmark, one could select the current benchmarks used in the determination of high cost loop support for study areas with more than 200,000 loops.<sup>7</sup> These benchmarks are given in the following table:

<sup>7</sup> The vast majority of non-rural LEC study areas are over 200,000 loops.

Table 2  
Current High Cost Formula  
Study Areas with Over 200,000 Loops

% Loop Cost of National Average	% Expense Adjustment Within Range
0% - 115%	0%
115% - 160%	10%
160% - 200%	30%
200% - 250%	60%
250% and above	75%

Applying these benchmarks with various levels of state support produces the following pattern:



Under this scenario, there is virtually no difference between the fund sizes produced by a \$2.00 (\$223M) and \$6.00 state responsibility (\$220M) with the hold harmless assumption. In fact, with current support at \$220M, this proposal essentially amounts to the same fund size as today, due to the hold harmless provision.

Therefore, if the primary goal is to keep the overall fund size reasonably close to the current non-rural fund size, choosing a \$2 state responsibility along with the current benchmarks would suffice. This would seem to avoid the arbitrariness in choosing the benchmark, since the

current method would continue to be used, however, the FCC would need a rationale for choosing \$2 as the state responsibility. Overall, though, this option would seem to avoid at least some of the arbitrary nature of choosing parameters.

On the other hand, this approach leads to other questions. If a \$2 state responsibility is chosen along with the current benchmarks, the overall fund size increases by only \$3 million with Mississippi receiving all of the increase. Thus, running the cost model, choosing the benchmarks, and setting (and justifying) the state responsibility level leads to a result that is essentially the same as today's using a much simpler process. The increased complexity of the FCC's approach hardly seems worth it if the answer comes out the same.

Choosing a 150% benchmark and a \$2 state responsibility leads to a fund size that is significantly (approximately \$125 million) higher than today's (a 56% increase). However, examination of the state by state results under such a scenario raises other questions. The entire \$125 million increase is entirely to 5 states as follows:

Table 3  
Increases in Federal Non-Rural High Cost Funding  
150% Benchmark, \$2 State Support, Hold-Harmless by State

State	Increase in Federal Support	Monthly increase per loop
Alabama	\$1.2M	\$0.05
Missouri	\$7.7M	\$0.22
Mississippi	\$82.7M	\$5.58
Wisconsin	\$17.9M	\$0.55
West Virginia	\$15.2M	\$1.58
Total	\$124.6M	N/A

Under the above scenario, 5 states get funding but Mississippi gets 66% of the increase.

Alternatively, one could set the benchmark at 115% with a \$2 state responsibility. In this scenario, the overall fund size increases by a whopping \$905.7M (a 412% increase). As would be expected, many more states receive increased federal funding in this scenario. In fact, 20 states receive increases while the rest are held harmless. The states receiving increases are as follows:

Table 4  
Increases in Federal Non-Rural High Cost Funding  
115% Benchmark, \$2 State Support, Hold-Harmless by State

State	Increase in Federal Support	Monthly Increase per Loop	% Increase of Total Increase
Alabama	\$147.6M	\$5.60	16.3%
Arkansas	\$15.3M	\$1.35	1.7%
Idaho	\$0.5M	\$0.09	0.1%
Indiana	\$8.4M	\$0.23	0.9%
Kentucky	\$85.2M	\$3.95	9.4%
Maine	\$32.0M	\$3.93	3.5%
Minnesota	\$4.2M	\$0.16	0.5%
Missouri	\$37.6M	\$1.09	4.2%
Mississippi	\$186.2M	\$12.55	20.6%
Montana	\$17.6M	\$4.18	1.9%
North Carolina	\$77.7M	\$1.55	8.6%
Nebraska	\$19.1M	\$1.99	2.1%
Ohio	\$44.3M	\$0.59	4.9%
Oklahoma	\$3.0M	\$0.14	0.3%
South Dakota	\$6.7M	\$2.10	0.7%
Virginia	\$42.5M	\$0.83	4.7%
Vermont	\$22.3M	\$5.57	2.5%
Wisconsin	\$56.5M	\$1.75	6.2%
West Virginia	\$80.7M	\$8.40	8.9%
Wyoming	\$18.3M	\$6.43	2.0%
Total	\$905.7M	N/A	100.0%

Due to the massive increase in the total size of the fund, such a scenario is not realistic, but more states do get increases in funding under this scenario. However, the distribution again is skewed. The same 5 states that got increases in the previous scenario (Alabama, Missouri, Mississippi, Wisconsin, and West Virginia) get 56% of the total increase. Other states get mere pennies per loop in increased monthly support.

The full results of these scenarios are given in the following table:

Table 5  
Federal Non-Rural High Cost Funding  
Comparisons with Current Support Amounts (\$M)

State	Current Support	Current Method, \$2 State Resp., Hold Harmless by State	Diff.	150% Benchmark, 100% Fed. Support, \$2 State Resp., Hold-Harmless by State	Diff	115% Benchmark, 100% Fed. Support, \$2 State Resp., Hold-Harmless by State	Diff
AL	\$11.5	\$11.5	\$0.0	\$12.7	\$1.2	\$159.0	\$147.6
AR	\$4.0	\$4.0	\$0.0	\$4.0	\$0.0	\$19.3	\$15.3
AZ	\$2.4	\$2.4	\$0.0	\$2.4	\$0.0	\$2.4	\$0.0
CA	\$6.4	\$6.4	\$0.0	\$6.4	\$0.0	\$6.4	\$0.0
CO	\$2.5	\$2.5	\$0.0	\$2.5	\$0.0	\$2.5	\$0.0
CT	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
DC	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
DE	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
FL	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
GA	\$3.0	\$3.0	\$0.0	\$3.0	\$0.0	\$3.0	\$0.0
HI	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
IA	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
ID	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.5	\$0.5
IL	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
IN	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$8.4	\$8.4
KS	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
KY	\$1.5	\$1.5	\$0.0	\$1.5	\$0.0	\$86.7	\$85.2
LA	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
MA	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
MD	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
ME	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$32.0	\$32.0
MI	\$0.8	\$0.8	\$0.0	\$0.8	\$0.0	\$0.8	\$0.0
MN	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$4.2	\$4.2
MO	\$9.0	\$9.0	\$0.0	\$16.6	\$7.7	\$46.6	\$37.6
MS	\$7.3	\$10.9	\$3.5	\$90.0	\$82.7	\$193.6	\$186.2
MT	\$1.8	\$1.8	\$0.0	\$1.8	\$0.0	\$19.3	\$17.6
NC	\$8.7	\$8.7	\$0.0	\$8.7	\$0.0	\$86.5	\$77.7
ND	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
NE	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$19.1	\$19.1
NH	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
NJ	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
NM	\$4.6	\$4.6	\$0.0	\$4.6	\$0.0	\$4.6	\$0.0
NV	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
NY	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0

Table 5 (cont.)

State	Current Support	Current Method, \$2 State Resp., Hold Harmless by State	Diff.	150% Benchmark, 100% Fed. Support, \$2 State Resp., Hold-Harmless by State	Diff	115% Benchmark, 100% Fed. Support, \$2 State Resp., Hold-Harmless by State	Diff
OH	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$44.3	\$44.3
OK	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$3.0	\$3.0
OR	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
PA	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
RI	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
SC	\$5.6	\$5.6	\$0.0	\$5.6	\$0.0	\$5.6	\$0.0
SD	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$6.7	\$6.7
TN	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
TX	\$5.6	\$5.6	\$0.0	\$5.6	\$0.0	\$5.6	\$0.0
UT	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
VA	\$1.3	\$1.3	\$0.0	\$1.3	\$0.0	\$43.8	\$42.5
VT	\$1.5	\$1.5	\$0.0	\$1.5	\$0.0	\$23.7	\$22.3
WA	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
WI	\$0.0	\$0.0	\$0.0	\$17.9	\$17.9	\$56.5	\$56.5
WV	\$1.7	\$1.7	\$0.0	\$16.9	\$15.2	\$82.3	\$80.7
WY	\$4.4	\$4.4	\$0.0	\$4.4	\$0.0	\$22.7	\$18.3
AK	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
PR	\$136.4	\$136.4	\$0.0	\$136.4	\$0.0	\$136.4	\$0.0
Total	\$219.9	\$223.4	\$3.5	\$344.5	\$124.6	\$1,125.6	\$905.7

### Conclusion

Based on the analysis presented in this paper, there are two major problems with the FCC's proposed methodology: 1) the choice of parameters (benchmark, state support level, etc.) is essentially arbitrary, especially given the desire to keep the fund size relatively small; and 2) the distribution of increases in support is flawed, possibly due to flaws in the nationwide cost model. The FCC is correct in concluding that there is no reason to significantly increase the size of the non-rural high cost fund since rates today are both affordable and reasonably comparable.

The problem then, is how to design a new mechanism which is rational, arrives at essentially the same answer as today in terms of overall fund size, and holds all states (or LECs) harmless. Based on the analysis in this paper, that would seem to be a very difficult task at best. Even if it could be done, the effort hardly seems worth the trouble.

Rather than continue to expend its limited resources on designing a new high cost funding mechanism for non-rural LECs, it would seem more prudent for the FCC to simply continue with the current mechanism for non-rural LECs and turn its attention to high cost funding for the rural LECs which would appear to be more necessary.



CERTIFICATE OF SERVICE

I, Grace Germain, do hereby certify that a copy of Comments Ameritech has been served on the party listed on the attached service list, via first class mail, postage prepaid, on this 23<sup>th</sup> day of July, 1999.

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